

CITY OF COLFAX, IOWA

Independent Auditors' Reports
Basic Financial Statements and
Supplemental Information
and Findings

June 30, 2011

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City of Colfax, Iowa
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Mast	Mayor	January, 2012
Curtis Small	Council Member	January, 2012
Brad Magg	Council Member	January, 2014
Bryan Poulter	Council Member	January, 2012
Steve Theis	Council Member	January, 2012
Karla Jones	Council Member	January, 2014
Kathy Mathews	City Clerk	Indefinite
Larry Opfer	Treasurer	Indefinite
Ken Walker	City Attorney	Indefinite

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Colfax

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Colfax's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statement for the six years ended June 30, 2010 (none of which are presented herein), which were prepared in conformity with an other basis of accounting, and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

May 29, 2012

Pollard and Company P.C.

CITY OF COLFAX MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Colfax provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements and the accompanying notes, which follow.

FINANCIAL HIGHLIGHTS

- The City's receipts totaled \$2,450,272 for the year ended June 30, 2011, an increase from 2010 which was \$2,171,799.
- Disbursements for the year totaled \$3,078,279 an increase from 2010 which was \$2,076,232.
- The City's total cash basis net assets as of June 30, 2011 were \$934,097. Of this amount governmental activities had a deficit of \$96,018 and the net assets of business type activities were \$1,030,115.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the city as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets are divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, and garbage/landfill. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Government funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The major governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax, Local Option Sales Tax, Hotel/Motel Tax Fund, and Employee Benefits Fund; 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Transfers In and Out are used to accumulate resources and allocate those resources internally among the City's various funds.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds are used to report business type activities. The City maintains three funds to provide separate information for the water, sewer, and garbage/landfill funds considering these to be major funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental and business type activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service	\$120,678	\$ 143,544
Grants, contributions and restricted interest	238,912	242,044
General receipts:		
Property tax		
for general purpose	501,160	488,780
for debt service	178,061	171,067
Bond Proceeds	100,000	
Unrestricted investment earnings	6,933	12,514
Other City taxes	234,279	223,074
Miscellaneous	130,511	63,260
Total receipts	1,510,534	1,344,283
Disbursements:		
Public safety	450,330	612,848
Public works	302,819	213,773
Health & Social Services	4,217	5,900
Culture and recreation	172,112	229,619
Community and economic development	130,449	31,126
General government	235,094	175,296
Debt service	198,018	194,521
Total disbursements	1,493,039	1,463,083
Increase (decrease) in cash basis net assets beginning of year	17,495	<118,800>
Cash basis net assets (deficit) beginning of year	<113,513>	5,287
Cash basis net assets end of year	<96,018>	<113,513>

Changes in Cash Basis Net Assets of Business Type Activities

	June 30, 2011	June 30, 2010
Program receipts:		
Charges for service		
Water	\$325,838	\$312,505
Sewer	371,141	363,448
Sanitation	139,140	142,372
Capital grants and restricted interest	103,619	9,191
Total receipts	939,738	827,516
Disbursements		
Water	1,010,876	288,409
Sewer	439,082	370,551
Sanitation	135,282	121,924
Total disbursements	1,585,240	780,884
Increase (decrease) in cash balance	<645,502>	46,632
Cash basis net assets beginning of year	1,675,617	1,628,985
Cash basis net assets end of year	1,030,115	1,675,617

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are the major reasons for the changes in fund balances of certain major funds from the prior year.

- The General Fund has a deficit balance of \$<387,446>. This deficit balance is a \$7,890 increase from last year's deficit. The City will continue to cut spending when possible.
- Employee Benefit Fund cash balance is \$97,368. Benefit payments were under property tax receipts in this year.
- The Debt Service Fund cash balance has a deficit of \$<28,537> after disbursements for the year and an increase in property tax receipts. The City will need to increase the debt service levy in an upcoming budget.
- The Road Use tax fund has a deficit balance of \$<6,871> which was created because of project expenditures which were made ahead of receipts in prior years. The receipt of future revenues will be used to offset the deficit.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$581,506 due to capital project expenditures which were made ahead of receipts for funding.
- The Sewer Fund cash balance decreased \$67,893. Sewer charges for service will be increased in the next fiscal year.
- The Garbage/Landfill cash balance increased \$3,897

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,652,269 in bonds and other long-term debt, compared to \$1,836,933 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2010	2011
Equipment Contract	58,204	47,434
General obligation bonds	385,764	317,870
Revenue notes	1,392,965	1,286,965
Total	\$ 1,836,933	\$ 1,652,269

The City's outstanding general obligation debt of \$317,870 is below its constitutional debt limit of \$3.5 million.

During the year, the City issued \$100,000 general purpose corporate note.

BUDGETARY HIGHLIGHTS

- The City had budget amendment in fiscal year 2011 of \$1,194,596 which included increases in Public Safety \$25,971; Public Works \$143,402; Community & Economic Development \$60,000; General Government \$27,910; Debt Service \$161,707 and Capital Projects and Flood \$775,606.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Colfax's elected and appointed officials considered many factors when setting the fiscal year 2012 budget; tax rates and fees that will be charged for various City activities were discussed.

Amounts available for appropriation in the operating budget are \$2.1 million, a slight decrease over the final 2011 budget. The City has applied for and received a SRF loan to assist with the installation of water meter expenses. There will also be an increase in rates for sewer to help with the offset of expenses.

Due to the careful planning the City's budgeted cash balance is expected to remain consistent with the close of 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, tax payers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it received. If you have questions about this report or need additional financial information, contact Kathy L. Mathews, City Clerk, 15 E Howard, Colfax, Iowa.

City of Colfax, Iowa
Statement of Activities and Net Assets -- Cash Basis
As of and for the year ended June 30, 2011

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 450,330	\$ 91,043	\$	\$
Public works	302,819		211,021	
Health and Social Services	4,217	1,590		
Culture and recreation	172,112	28,045		
Community and economic development	130,449		27,891	
General government	235,094			
Debt service	198,018			
Total governmental activities	1,493,039	120,678	238,912	
Business Type Activities				
Water	1,010,876	325,838		101,958
Sewer	439,082	371,141		
Sanitation	135,282	139,140		
Total business type activities	1,585,240	836,119		101,958
Total	\$ 3,078,279	\$ 956,797	\$ 238,912	\$ 101,958
General Receipts				
Property tax levied for				
General purposes				
Debt service				
Local option sales tax				
Hotel/motel tax				
Unrestricted interest on investments				
Bond proceeds				
Other city tax and permits				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash basis net assets				
Nonexpendable				
Expendable				
Debt service				
Other purposes				
Unrestricted (deficit)				
Total cash basis net assets				

There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash
Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ (359,287)	\$	\$ (359,287)
(91,798)		(91,798)
(2,627)		(2,627)
(144,067)		(144,067)
(102,558)		(102,558)
(235,094)		(235,094)
(198,018)		(198,018)
(1,133,449)		(1,133,449)
	(583,080)	(583,080)
	(67,941)	(67,941)
	3,858	3,858
	(647,163)	(647,163)
\$ (1,133,449)	\$ (647,163)	\$ (1,780,612)
501,160		501,160
178,061		178,061
169,554		169,554
64,725		64,725
6,933	1,661	8,594
100,000		100,000
25,414		25,414
105,097		105,097
1,150,944	1,661	1,152,605
17,495	(645,502)	(628,007)
(113,513)	1,675,617	1,562,104
\$ (96,018)	\$ 1,030,115	\$ 934,097
\$ 66,048	\$	\$ 66,048
	11,364	11,364
295,349	1,018,751	1,314,100
(457,415)		(457,415)
\$ (96,018)	\$ 1,030,115	\$ 934,097

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue			
	General	Road Use Tax	Local Option SalesTax	Hotel/Motel Tax
Receipts				
Property Taxes	\$ 349,309	\$	\$	\$
Other City Tax	15,064		169,554	64,725
Licenses and Permits	10,350			
Use of Money and Property	6,404		193	336
Intergovernmental		211,021		
Charges for Services	120,678			
Miscellaneous	101,317	1,074		
Total Receipts	603,122	212,095	169,747	65,061
Disbursements				
Operating				
Public Safety	370,697			
Public Works		287,220		
Health and Social Services	4,217			
Culture and Recreation	152,589			
Community and Economic Development			43,406	23,891
General Government	200,648			
Debt Service			13,159	
Total Disbursements	728,151	287,220	56,565	23,891
Excess (deficiency) of receipts over (under) disbursements	(125,029)	(75,125)	113,182	41,170
Other financing sources (uses)				
Loan Proceeds		100,000		
Operating transfers in	117,139			
Operating transfers out			(84,777)	(32,362)
Total other financing sources (uses)	117,139	100,000	(84,777)	(32,362)
Net change in cash balances	(7,890)	24,875	28,405	8,808
Cash balance (deficit) - beginning of year	(379,556)	(31,746)	85,175	73,425
Cash balance (deficit) - end of year	\$ (387,446)	\$ (6,871)	\$ 113,580	\$ 82,233
Cash basis fund balances (deficit)				
Nonspendable- Cemetery perpetual care	\$	\$	\$	\$
Restricted for other purposes			113,580	82,233
Unassigned	(387,446)	(6,871)		
Total cash basis fund balances (deficit)	\$ (387,446)	\$ (6,871)	\$ 113,580	\$ 82,233

The accompanying notes to financial statements are an integral part of this statement.

<u>Special Revenue</u>		Other Nonmajor Governmental		
Employee Benefits	Debt Service	Funds	Total	
\$ 151,851	\$ 178,061	\$	\$ 679,221	
			249,343	
			10,350	
			6,933	
		27,891	238,912	
			120,678	
		2,706	105,097	
151,851	178,061	30,597	1,410,534	
79,633			450,330	
15,599			302,819	
			4,217	
19,523			172,112	
		63,152	130,449	
34,446			235,094	
	184,859		198,018	
149,201	184,859	63,152	1,493,039	
2,650	(6,798)	(32,555)	(82,505)	
			100,000	
			117,139	
			(117,139)	
			100,000	
2,650	(6,798)	(32,555)	17,495	
94,718	(21,739)	66,210	(113,513)	
\$ 97,368	\$ (28,537)	\$ 33,655	\$ (96,018)	
\$	\$	\$ 66,048	\$ 66,048	
97,368		2,168	295,349	
	(28,537)	(34,561)	(457,415)	
\$ 97,368	\$ (28,537)	\$ 33,655	\$ (96,018)	

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

/

	Water	Sewer	Sanitation	Total
Operating receipts				
Charges for service	\$325,838	\$ 371,141	\$139,140	\$836,119
Operating disbursements				
Business type activities	357,957	258,912	135,282	752,151
Excess of operating receipts over operating disbursements	(32,119)	112,229	3,858	83,968
Non-operating receipts (disbursements)				
Intergovernmental- flood assistance	101,958			101,958
Flood expenses	(190,944)			(190,944)
Interest on investments	1,574	48	39	1,661
Debt service		(151,475)		(151,475)
Capital projects	(461,975)	(28,695)		(490,670)
Total non-operating receipts (disbursements)	(549,387)	(180,122)	39	(640,484)
Net change in cash balances	(581,506)	(67,893)	3,897	(645,502)
Cash balances - beginning of year	1,189,659	346,433	139,525	1,675,617
Cash balances - end of year	\$ 608,153	\$ 278,540	\$ 143,422	\$ 1,030,115
Cash basis fund balances				
Restricted for debt service	\$	\$ 11,364	\$	\$ 11,364
Assigned	608,153	267,176	143,422	1,018,751
Total cash basis fund balances	\$ 608,153	\$ 278,540	\$ 143,422	\$ 1,030,115

See notes to financial statements.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the Year Ended June 30, 2011

	<u>Library Memorials</u>	<u>Tenant Memorial</u>	<u>IDED Project</u>
Receipts			
Donations	\$ 3,650	\$	\$
Investment earnings - interest	<u>551</u>	<u>1,359</u>	<u></u>
Total receipts	<u>4,201</u>	<u>1,359</u>	<u></u>
Disbursements			
Culture and Recreation	<u>2,167</u>	<u></u>	<u></u>
Excess of receipts over disbursements	2,034	1,359	
Cash balance - beginning of year	43,833	64,810	1,143
Cash balance - end of year	<u><u>\$ 45,867</u></u>	<u><u>\$ 66,169</u></u>	<u><u>\$ 1,143</u></u>

CITY OF COLFAX, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1/ Summary of Significant Accounting Policies

The City of Colfax is a political subdivision of the State of Iowa located in Jasper County. It was first incorporated in 1866 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units that meet the criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards, commissions and 28E agreement: Jasper County Assessor's Conference Board, Selective Enforcement Response Team and Safety Coalition of Central Iowa Cities, City- County Planning Board, and Central Iowa Committee and a 28 E agreement for police, fire and emergency response with the City of Mitchellville.

The City also participates in the Jasper County Animal Rescue League and Humane Society with other municipalities in an organization under Chapter 28E of the Code of Iowa and paid fees to the organization \$4,217 during the fiscal year.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net Assets are reported in three categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those which are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax is used to account for the City's sales tax receipts and the disbursements financed by such.

The Hotel/Motel Tax Fund is used to account for the City's hotel/motel tax receipts and the disbursements financed by such.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid waste disposal system.

C. Measurement Focus and Basis of Accounting

The City of Colfax maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial

statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then less restrictive classifications- committed, assigned and the unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the Culture and Recreation and Debt Service functions.

2/ Cash and Pooled Investments

The City's deposits at June 30, 2011 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City.

3/ Notes Payable

The annual debt service requirement to maturity for general obligation notes, and the sewer revenue notes and bonds is as follows:

Year Ending June 30,	General Obligation Notes		Sewer Revenue Notes		Total Annual Debt Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	126,200	13,235	116,736	40,363	242,936	53,598
2013	72,554	7,330	121,052	36,187	193,606	43,517
2014	27,116	4,498	113,177	31,839	140,293	36,337
2015	21,000	3,312	105,000	28,080	126,000	31,392
2016	21,000	2,400	108,000	24,930	129,000	27,330
2017 - 2021	50,000	6,000	723,000	73,920	773,000	79,920
Totals	\$ 317,870	\$ 36,775	\$ 1,286,965	\$ 235,319	\$ 1,604,835	\$ 272,094

The City has pledged future sewer receipts, net of specified operating disbursements, to repay \$2,160,000 in sewer revenue note and bonds issued in May 2001 and March 2003, respectively. Proceeds were used to provide financing for the construction of improvements to the sewer plant. The obligations are payable solely from sewer customer net receipts and are payable through 2022. The total principal and interest remaining to be paid on the obligations is \$1,522,284. For the current year, principal and interest paid was \$147,889 and total customer net receipts were \$112,229.

The resolutions providing for the issuance of the note and bonds include the following provisions:

- The notes or bonds will only be redeemed from the future earnings of the sewer activity and the holders hold a lien on the future earnings of the sewer fund.
- Sufficient monthly transfers shall be made to a separate revenue bond sinking account for the purpose of making the next principal and interest payments.
- The City shall establish, impose, adjust and provide for the sewer rates to produce gross revenues at least sufficient to leave a balance, after specified operating disbursements, equal to 110% of the principal and interest due in any fiscal year.

During the year, the City did not increase sewer rates as required by the above resolution. Subsequently, the rates were increased. Also, the City had not established sufficient amount for the sinking fund as required by the above resolution.

Equipment Purchase Contract-

In February, 2010, the City entered into an equipment purchase contract totaling \$58,204 to purchase a backhoe. The annual payment of \$13,186, including interest at 4.15%, began February, 2011 and will continue each year until February, 2015.

4/ Tax Increment Financing

In 1988, 1991, and 1999, the City established three urban renewal districts and is permitted to make agreements with the county and school, in accordance with Chapter 403.19 of the Code of Iowa, to divide the increase in taxes, as a result of the incremental property tax valuation in those districts.

In July 2001, the City and Jasper County entered into a 28E agreement to develop the Colfax I-80 Interchange Urban Renewal Project area. The City extended its water and sanitary sewer service to the area.

By June 30, 2011, the County had loaned the City \$1,197,501 for the extension costs and \$80,175 to reimburse engineering costs. The County collects and retains all tax increment revenues collected from the taxable properties located in the area. If upon maturity of the loan, the revenue collected is not sufficient to fully reimburse the County for all the principal and interest paid by the County, on its loan for this specific purpose, the City will be obligated to repay the unpaid balance plus interest at the rate then being paid by the County on its loan. Since the repayment is contingent on future taxes paid in the Urban Renewal Project area, the amounts of the payments, if any, are not readily determinable.

5/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$ 44,396, \$40,572, and \$33,038, respectively, equal to the required contributions for each year.

6/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The liability is computed based on the rate of pay as of June 30, 2011. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, was \$26,000.

7/ Other Postemployment Benefits (OPEB)

Plan Description- The City participates in a multi-employer benefit plan which provides medical/prescription drug and dental benefits for active employees, retirees and their spouses. There are 11 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The benefits are provided through a fully-insured plan with Central States Southeast and Southwest Areas Health and Welfare and Pensions Fund. Retirees under age 65 pay the full premium for the benefits while the City contributes to the premium of active employees.

Funding Policy- The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member weekly premiums are \$211 for the City and \$30 for active employees. The contribution requirements of plan members are established and may be amended by the City. For the year ended June 30, 2011, the City contributed \$134,591 and plan members eligible for benefits contributed \$15,720 to the plan.

8/ Landfill Closure and Postclosure Care

The City has entered into an agreement with several other municipalities, as allowed under Code of Iowa Section 28E, to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill. State and federal laws and regulations require the Newton Sanitary Landfill to place a final cover on the site and to perform certain maintenance and monitoring functions at the site for thirty years after closure. To date, 29% of the landfill

has been filled and the estimated total liability for such is \$ 4,744,200, based on 2010 cost estimates. Actual costs may be higher due to inflation, technology changes, and changes in regulations. As specified in the 28E agreement, the City is responsible for 2.11 % or approximately \$100,000. The City's proportionate share is updated annually in accordance with the agreement.

9/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

	Transfer to General
Transfer from	
Local Option	84,777
Hotel/Motel Tax	32,362
	<u>\$ 117,139</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,499 during the year ended June 30, 2011.

11/ Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

13/ Deficit Fund Balances

At June 30, 2011 the General, Road Use Tax, Debt Service and CDBG Funds had deficit balances of \$387,446, \$6,8716, \$28,537 and \$34,561, respectively. The deficit in the General Fund will be reduced by transfers from the Proprietary Fund operating accounts to the extent possible. The deficit in the Debt Service Fund will be reduced by increasing property tax levies in subsequent years. The deficit in the Road Use Tax Fund will be reduced by future receipts. The CDBG Fund will be reduced by future grant receipts.

14/ Economic Development Loan

In 2004, with funds from the Iowa Department of Economic Development (IDED), the City loaned \$150,000 to a local manufacturing company which employed 40 people. The loan was forgivable to the extent of \$75,000 and the company fulfilled the requirement for such. Repayments totaling \$21,250 were received

through 2007 on the \$75,000 balance. Any repayments were to be used by the City for similar projects. In 2009, a new company acquired the assets and received a \$25,000 loan and a \$25,000 forgivable loan from IDED. In addition, the City loaned \$20,000 which was to be repaid, beginning March 1, 2011, with annual payments of \$2,000. To date nothing has been received.

The City also requested payment of the \$53,750 remaining balance, plus interest, from the owners of the old company. To date nothing has been received.

15/ Construction Commitments

The City has committed to completing the water meter installation project. Through June 30, 2011, \$ 480, 370 has been paid with \$54,753 to be paid in the next fiscal year. The project will be financed in part by the \$ 510,000 State Revolving Fund loan received after June 30, 2011.

City of Colfax, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts			
Property Taxes	\$ 679,221	\$	\$ 633,148
Other city tax	249,343		249,343
Licenses and permits	10,350		10,350
Use of money and property	6,933	1,661	8,594
Intergovernmental	238,912	101,958	340,870
Charges for Service	120,678	836,119	956,797
Miscellaneous	105,097		105,097
Total Receipts	<u>1,410,534</u>	<u>939,738</u>	<u>2,304,199</u>
Disbursements			
Public safety	450,330		450,330
Public works	302,819		302,819
Health and social services	4,217		4,217
Culture and recreation	172,112		172,112
Community and economic development	130,449		130,449
General government	235,094		235,094
Debt service	198,018	151,475	349,493
Capital projects		681,614	
Business type activities		752,151	752,151
Total Disbursements	<u>1,493,039</u>	<u>1,585,240</u>	<u>2,396,665</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(82,505)</u>	<u>(645,502)</u>	<u>(92,466)</u>
Other financing (uses) net	<u>100,000</u>		<u>100,000</u>
Excess (deficiency) of receipts over disbursements and other financing uses	<u>17,495</u>	<u>(645,502)</u>	<u>7,534</u>
Balance - beginning of year	(113,513)	1,675,617	1,562,104
Balance (deficit) - end of year	<u>\$ (96,018)</u>	<u>\$ 1,030,115</u>	<u>\$ 1,569,638</u>

See accompanying independent auditors' report.

Budgeted Amounts		
Original	Final	Final to Net Variance
\$ 666,564	\$ 666,564	\$ (33,416)
262,050	262,050	(12,707)
10,625	10,625	(275)
2,000	2,000	6,594
192,252	192,252	148,618
926,000	952,000	4,797
25,000	43,000	62,097
2,084,491	2,128,491	175,708
430,184	456,155	5,825
204,523	347,925	45,106
6,000	6,000	1,783
179,086	179,086	6,974
34,005	94,005	(36,444)
212,533	240,443	5,349
13,950	175,657	(173,836)
		(681,614)
747,550	1,523,156	771,005
1,827,831	3,022,427	(55,852)
256,660	(893,936)	801,470
	860,000	(760,000)
256,660	(33,936)	41,470
1,365,623	2,412,322	(850,218)
\$ 1,622,283	\$ 2,378,386	\$ (808,748)

City of Colfax, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2011

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$ 1,194,596. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Community and Economic Development. This was due to receiving from CDBG and disbursing those funds, in June, 2011, which were not anticipated in the budget amendment. Budgeted disbursements were also exceeded in the Debt Service and Capital Project functions. This was primarily due to: classifying these disbursements as business type function in the published budget rather than debt service and capital project functions and capital project expenses paid before bond proceeds were received.

City of Colfax, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2011

	Special Revenue		Permanent	
	United Way Flood	CDBG	Cemetery Perpetual Care	Total
Receipts				
Intergovernmental	\$	\$ 27,891	\$	27,891
Miscellaneous	2,868		(162)	2,706
Total Receipts	2,868		(162)	30,597
Disbursements				
Community and Economic Development	700	62,452		63,152
Net change in cash balances		(34,561)	(162)	(32,555)
Cash balance - beginning of year			66,210	66,210
Cash balance - end of year	\$ 2,168	\$ (34,561)	\$ 66,048	\$ 33,655
Cash basis fund balances				
Nonspendable	\$	\$	\$ 66,048	66,048
Restricted	2,168			\$ 2,168
Unassigned		(34,561)		\$ (34,561)
Total cash basis fund balances	\$ 2,168	\$ (34,561)	\$ 66,048	\$ 33,655

See accompanying independent auditors' report.

City of Colfax, Iowa
Schedule of Indebtedness
For the year ended June 30, 2011

			Amount Originally Issued
	Date of Issue	Interest Rates	
Obligation			
General Obligation Notes			
Fire Station and Park Project	March 2, 1998	5.00%	\$ 400,000
City Hall Note	April 1, 2002	5.00%	35,000
South Sewer	April 14, 2003	3.50%	400,000
Corporate Purpose Note	August 15, 2001	5.00%	150,000
Lake Street Sewer	October 1, 2004	4.50%	100,000
Federal Street Improvements	February 15, 2008	4.50%	75,000
Water and Sewer Improvements	October 24, 2006	4.65%	110,000
Street Improvements	September 1, 2010	4.00%	100,000
Corporate Purpose Note			
Sewer Equipment and Streetsweeper	September 15, 2005	4.50%	232,500
Totals			
Revenue Notes			
Sewer Revenue Bonds	March 15, 2003	3.00%	\$ 1,984,000
Sewer Revenue Note	May 8, 2001	6.25%	250,000
Totals			
Equipment Contract- Backhoe	February 24, 2010	4.15%	\$ 58,204

The accompanying notes to financial statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 70,606	\$	\$ 33,702	\$ 36,904	\$ 3,558
7,000		3,500	3,500	348
80,000		40,000	40,000	2,819
12,942		12,942		396
41,716		13,000	28,716	1,751
30,000		15,000	15,000	1,359
66,000		11,000	55,000	3,105
	100,000		100,000	
77,500		38,750	38,750	3,629
<u>\$ 385,764</u>	<u>\$ 100,000</u>	<u>\$ 167,894</u>	<u>\$ 317,870</u>	<u>\$ 16,965</u>
 \$ 1,326,000	 \$	 \$ 93,000	 \$ 1,233,000	 \$ 39,780
66,965		13,000	53,965	2,109
<u>\$ 1,392,965</u>	<u>\$</u>	<u>\$ 106,000</u>	<u>\$ 1,286,965</u>	<u>\$ 41,889</u>
 \$ 58,204	 \$	 \$ 10,770	 \$ 47,434	 \$ 2,416

City of Colfax, Iowa
Bond and Note Maturities
For the year ended June 30, 2011

Year Ending June 30,	Fire Station and Park		City Hall		South Sewer	
	Issued March 2, 1998		Issued April 1, 2002		Issued April 14, 2003	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Interest Rates (%)	Amount
2012	5.00	36,904	5.00	3,500	3.50	-
2013					3.50	40,000
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
Totals		<u>\$ 36,904</u>		<u>\$ 3,500</u>		<u>\$ 40,000</u>

Year Ending June 30,	Sewer and Streetsweeper		Federal Street Improvements		Total General Obligations
	Interest Rates (%)	Amount	Interest Rates (%)	Amount	
2012	4.65	38,750	4.50	15,000	126,200
2013					72,554
2014					27,116
2015					21,000
2016					21,000
2017					10,000
2018					10,000
2019					10,000
2020					10,000
2021					10,000
Totals		<u>\$ 38,750</u>		<u>\$ 15,000</u>	<u>\$ 317,870</u>

See accompanying independent auditors' report.

[illegible]

Sewer Revenue Notes			Sewer Revenue Bonds		
Issued May 8, 2001			Issued March 15, 2003		
Year Ending June 30,	Interest Rates (%)	Amount	Interest Rates (%)	Amount	Total Sewer Notes & Bonds
2012	6.25	20,736	3.00	96,000	116,736
2013	6.25	22,052	3.00	99,000	121,052
2014	6.25	11,177	3.00	102,000	113,177
2015			3.00	105,000	105,000
2016			3.00	108,000	108,000
2017			3.00	112,000	112,000
2018			3.00	115,000	115,000
2019			3.00	118,000	118,000
2020			3.00	122,000	122,000
2021			3.00	126,000	126,000
2022			3.00	130,000	130,000
Totals		\$ 53,965		\$ 1,233,000	\$ 1,286,965

City of Colfax, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
For the Last Seven Years

	2011	2010	2009	2008	2007
Receipts					
Property taxes	\$679,221	\$ 633,148	\$ 661,194	\$ 627,494	\$ 583,887
Tax increment financing collections		26,699	23,036	17,140	17,426
Other city tax	249,343	238,398	236,577	229,257	213,583
Licenses and permits	10,350	12,898	9,198	12,363	22,075
Use of money and property	6,933	12,514	19,999	22,702	22,415
Intergovernmental	238,912	237,890	256,998	418,635	256,279
Charges for service	120,678	130,646	119,656	144,787	108,484
Special assessments		10,731	46,797		
Miscellaneous	105,097	64,615	81,213	24,970	73,784
Total	\$ 1,410,534	\$ 1,367,539	\$ 1,454,668	\$ 1,497,348	\$ 1,297,933
Disbursements					
Operating					
Public safety	\$ 450,330	\$ 612,848	\$ 486,489	\$ 408,237	\$ 384,234
Public works	302,819	213,773	335,071	503,078	246,762
Health and social services	4,217	5,900			
Culture and recreation	172,112	229,619	256,398	186,962	174,050
Community and economic development	130,449	31,126	43,916	83,565	3,001
General government	235,094	175,296	180,088	177,694	200,153
Debt service	198,018	194,521	201,880	242,514	188,570
Total	\$ 1,493,039	\$ 1,463,083	\$ 1,503,842	\$ 1,602,050	\$ 1,196,770

See accompanying independent auditors' report.

	2006		2005
\$	529,100	\$	557,068
	16,114		17,510
	338,289		181,448
	19,277		15,622
	14,512		5,579
	207,885		196,590
	140,273		197,131
	93,437		119,495
\$	1,358,887	\$	1,290,443

\$	376,397	\$	512,601
	326,697		284,064
			6,182
	180,711		167,381
	3,000		3,001
	272,783		284,583
	172,458		122,653
\$	1,332,046	\$	1,380,465

POLLARD AND COMPANY P.C.

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PRIVATE COMPANIES PRACTICE SECTION
IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Colfax, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Colfax's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we considered to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Colfax's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Colfax's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Colfax and other parties to whom the City of Colfax may report. This report is not intended to be and should not be used by anyone other than these specified parties.

May 29, 2012

Pollard and Company P.C.

CITY OF COLFAX, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-11 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally one person has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, signing, mailing, journalizing and posting.
- (3) Payroll preparation and distribution.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We have attempted to involve the mayor, council, deputy city clerk, and department heads to produce more segregation of duties of the above functions. We will continue to review the internal control procedures and continue to segregate duties to the extent possible.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-11 Certified Budget

Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the Community and Economic Development, Debt Service and Capital Project functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

See explanation in Notes to Required Supplementary Information – Budgetary Reporting. The budget will be amended in the future, as applicable.

Conclusion

Response accepted.

Part II: Other Findings Related to Statutory Reporting (continued)

II-B-11 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense

We noted no disbursements of City money for travel expenses of spouses of City officials or employees during the year.

II-D-11 Business Transactions

Business transactions between the City and City officials or employees are as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bryan Poulter, Council Member,	Swimming Pool Manager Wages	\$2,499

In accordance with Chapter 362.5(10) of the Code of Iowa, this transaction does not appear to be a conflict of interest, since the duties of the function are not incompatible with duties as a Council Member.

II-E-11 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

Although the minutes were published as required, they did not always contain a summary of receipts in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation

The City should comply with the Code of Iowa and publish a summary of the receipts

Response

We will publish the summary of receipts as required.

Conclusion - Response accepted

II-G-11 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-11

Revenue Bonds and Notes

As noted in Note 3, the City was not in compliance with two revenue bond and note resolutions.

Recommendation

The City should periodically determine if rates are sufficient to provide net operating revenues which exceed 110% of the debt service required on the revenue bonds and notes. Also, the City should set aside, monthly in a sewer sinking fund, 1/6th of the next interest payment and 1/12th of the next principal payment for the sewer bonds.

Response

The monthly amounts will be set aside and the rates will be reviewed.

Conclusion

Response accepted.

II-I-11

Financial Condition

The General, Road Use Tax, Debt Service and CDBG Funds had deficit balances at June 30, 2011 of \$387,446, \$6,871, \$ 28,537 and \$34,561, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

Note 13 of the financial statements describes the City's plans to eliminate the deficits.

Conclusion

Response accepted.